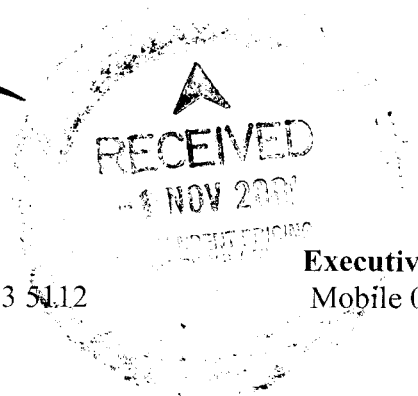




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26 October 2001

The Chairman  
Independent Pricing & Regulatory Tribunal  
PO Box Q290  
QVB Post Office  
NSW 1230

Dear Sir

*Re: Draft Report – Bulk Water Prices from 1 October 2001*

We commend your Tribunal for a comprehensive draft Report with very clear explanations of your decisions and the reasons for them.

Our views on issues such as rate of return, beneficiary and impactor pays, and the cost of water resource management have been presented in detail in the past. Rather than restate them, we wish to highlight what we believe has become the fundamental issue with regard to water pricing for the irrigation industry.

In our catchment, all the evidence points to the fact that *ability to pay* is being significantly eroded. The following figures demonstrate this for our major commodity, cotton. Historically, this has been the best performer, but this is not currently the case.

Current price per bale	\$310
Cost of production per bale	\$400 (Note 1)
Average yield in bales/ha	8
Water required: ML/ha	7
Water required: ML/bale	0.875
Average price of water, 2000/01: \$/ML (based on average annual usage of 175,000ML for the period 1996 – 2001)	\$8.12
Average cost of pumping water: \$/ML	\$10
Average cost of buying and pumping water: \$/ML	\$18.12
Overall cost of water: \$/bale (excludes cost of application)	\$15.86
% of cost of production	4.0%
Overall cost of water after three years of 8% + CPI price rises: \$/bale	\$18.57 (Notes 2,3)
% cost of production after three years of 8% + CPI price rises	4.6%

*Affiliates:* Boomi-Gnoura Gnoura Water Users Association; Croppa Creek Sandstone Bore Advisory Association; Dumaresq Valley Irrigators Association; Lower Weir River Water Users Association; Macintyre Brook Irrigators Association; Macintyre River Basin Water Users Association; Macintyre Valley Cotton Growers Association; Mole & Sovereign Water Users Association; Mungindi Water Users & Cotton Growers Association; Pindari Water Users Association; Upper Weir River & Tributaries Water Users Association

*Notes*

1. *Assume 2% pa CPI*
2. *Assume cost of pumping increases by CPI*
3. *Assume cost of production remains at \$400/bale for the next three years (this probably varies between \$350 in high yield years and \$400 in lower yield years like last season)*

NSW Border Rivers irrigators are also paying a levy, now \$12.41/ML of nominal allocation and rising at 5% per year, as their contribution to the joint venture enlargement of Pindari Dam, completed in 1995. At the average annual usage of 175,000 ML, this translates into an additional cost of \$18.79/ML. Thus the total cost of water per bale (and the levy has several years to run) is \$32.30, or 8.1% of the cost of production now, rising to \$37.61 or 9.4% in three year's time. Clearly, water is a significant contributor to the cost of inputs in what is already a high cost (and high risk) industry.

Current conditions for the cotton industry are precarious at best.

- The market price is \$310 per bale, less than the previous low in 1976
- It is estimated that only 20% - 30% of the present crop is forward sold at higher prices than this
- By picking time in April 2002, most producers will be forced to take whatever price is available (a lucky few may be able to warehouse and wait)
- World stockpiles and soft demand have market analysts predicting no upturn for at least two years
- Irrigators, employees and their families, businesses and Councils are greatly concerned

Why keep growing a crop that is quite likely to result in a serious loss? Why not switch to something else? There are some compelling practical reasons.

- The specialist flood irrigation infrastructure for cotton is suitable for a limited number of other crops, none of which in past years have had the potential to produce a return commensurate with asset values and debt profiles
- The infrastructure is not portable
- The opportunity to use water for other purposes is constrained by geographic location, climate and market factors
- The servicing of debt requires cash flow, debt to equity ratios are generally high, and financiers do not take kindly to years of no income
- Most cotton producers are eternal optimists and live in hope

Post-COAG it is "conventional wisdom" that water must move to its highest value uses, which is sound in theory. However, market forces ensure that the relativities of usage values are constantly changing, as the cotton situation graphically demonstrates. There are other examples.

- One Border Rivers producer grosses some \$18,000 per megalitre from 0.25 ha of echinacea; a doubling of this area would flood the Australian market
- Horticulture can produce high returns but has notoriously fickle supply and demand, small domestic markets, and export markets that take years to develop; the different skills needed also take time to acquire
- It is not feasible to divert large volumes of the water now used for cotton and rice into wine grapes, currently a successful growth industry that makes efficient use of water

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- The growing of rice is not in itself highly profitable, but the associated value-adding is; the co-operative structure of the industry ensures that irrigators benefit from this vertical integration from paddy to supermarket shelf
- Water use on pastures is generally considered to be wasteful, but if it results in high-value stud stock, is this necessarily the case?

The highest value use theory is countered by the proposition that a diversity of uses for water recognises physical and market limitations, covers the risks better, and may well be where our long-term national interest lies.

Our strongly-held belief is that the regional development motive for building dams and facilitating the productive use of water is still valid today, qualified by the need for efficient use and limits to ensure long-term sustainability. Because regions are widely distributed, and each has its own characteristics, potential and limitations, diversity is inevitable. The alternative is to pick some successful regions and allow the others to wither and die. This is not consistent with the need to have a spread of population. One of the many valid justifications for this is that our landscapes will deteriorate if not managed well, and the best way to achieve this is through the people who live and work on site.

The flow-on effects of irrigated production through entire communities and regions are indisputable. A November 2000 study by Price Waterhouse Coopers (*Socio-Economic Impact Assessment, Condamine-Balonne WAMP*) estimates that “*irrigated farming and directly-related activities account for approximately 74% of the total patronage for general businesses, social and Government institutions in the Balonne regional economy*”. The rigid application of “impactor pays” is seriously at odds with the real beneficiaries situation.

We vigorously contend that public funding of a higher percentage of the cost of providing bulk water is fully justified, and would be recognised as such by any fair-minded citizen with access to the facts. While pricing is only one of the factors impacting on overall viability, the consequences of proceeding along the current path could well contribute to a potentially avoidable chain reaction.

- A further worsening of the already debilitating uncertainty in the irrigation industry resulting from the combined effects of:
  - the water reform process
  - Murray-Darling Basin caps
  - lack of secure legal entitlements to water as stipulated by COAG
  - bulk water price increases many times greater than CPI
  - an apparent political and bureaucratic anti-irrigation mindset
  - an insensitive, seemingly uncaring approach to change management
  - extremely difficult market conditions for some major commodities
- A serious deterioration in the demand for irrigation farms and water (already, the only two Border Rivers cotton farms to come on the market in the last six months have failed to sell)
- A loss of confidence by financiers in the asset security and debt repayment capacity of irrigated producers resulting in, at best, higher interest rates and, at worst, withholding of operating finance and foreclosures

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- Forced sales into a depressed market, bankruptcies and walk-offs (anecdotal evidence suggests that there are significant numbers of enterprises in our region in trouble to differing degrees)
- A wind-back of investment, including that required to maintain current productivity, increase efficiency, and undertake technology-based development, our hope for the future
- Reduced demand for goods and services in local and regional economies, impacting seriously on businesses, employment and infrastructure
- A decline in confidence throughout irrigation-dependent communities leading to a loss of population, falling real estate values, and increasingly non-viable services and amenities
- Increasing unemployment and further pressure on urban centres
- A reduction in the contribution of irrigated production to the tax base and export income


The costs associated with this scenario make the maintenance of public investment in bulk water pale into insignificance. Any reasonable public benefits test would, we believe, establish beyond doubt that such investment makes perfect sense, just as it does for transport, communication and community services. Unfortunately, the often-stated "commitment" of Government to carry out rigorous and objective socio-economic impact analysis on pricing and water reforms has never materialised, and seems unlikely to do so. By the time the seriousness of this omission is fully recognised, it will almost certainly be too late to undo the damage.

We don't think that we are being overly alarmist in presenting this worst-case scenario to you. Hopefully, it will never be realised in its entirety, but it would be irresponsible not to consider the possibility and the alternatives.

The Tribunal's role and terms of reference may well restrict its ability to make decisions on what are essentially philosophical issues to be determined in the broader political arena. However, the analysis and justifications presented by IPART undoubtedly have a significant influence on politicians and bureaucrats. We will also be approaching them independently of our submission to you. We hope that our views can make a positive contribution to a critical debate.

A response from you would be greatly appreciated.

Yours sincerely



Bruce McCollum  
Executive Officer

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